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Bernanke Clears a Hurdle, But Fed Faces Loss of Clout

By Steven Sloan, American Banker

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WASHINGTON — Though Federal Reserve Board Chairman Ben Bernanke's renomination won the Senate Banking Committee's approval Thursday, it was hardly a vote of confidence in the central banker or his agency.

Sen. Richard Shelby, the panel's top GOP member, voted against giving Bernanke another four years at the Fed, as did five other Republicans and one Democrat. Many of the 16 committee members who supported Bernanke — mostly Democrats — did so after noting the Fed's lapses in banking supervision, consumer protection and monetary policy.

The fractured vote — highly unusual for a candidate to lead the central bank — sends Bernanke's nomination to the full Senate for what is expected to be a heated debate. It also serves to show Bernanke will face several hurdles if he remains at the central bank, including the growing likelihood that the Fed will lose its supervision powers.

"It certainly does underscore the work that Bernanke still has to do to defend the Fed," said Chris Low, the chief economist at First Horizon National Corp.'s FTN Financial. "I don't think his confirmation was ever in doubt, but the confirmation process has become a proxy for a fight over the Fed itself."

Though Shelby has been a vocal critic of the Fed, many had expected the Alabama Republican to back Bernanke, however grudgingly. Instead, in a lengthy statement at the beginning of the committee vote, Shelby ticked off what he viewed as Bernanke's failures, including his support of loose monetary policy early in the decade, delayed recognition of the severity of the financial crisis and making loans that amounted to bailouts.

"Over the years, we have enacted a number of laws which demonstrated our confidence in this institution and our expectation that they would use the authority we gave them to avoid financial crises," Shelby said. "We trusted the Fed to execute those laws when deemed prudent and necessary. I fear now, however, that our trust and confidence were misplaced."

Although Bernanke's nomination was already expected to culminate in a fight on the Senate floor, Shelby's opposition is likely to carry weight with other Senate Republicans, raising the number of votes against the Fed chief.

"Once this is out on the floor, whichever way Shelby goes would change five or six Republican votes outside of the committee," said Mark Calabria, a former Shelby aide who is now the director of financial regulation studies at the Cato Institute.

Some Democrats, including Sen. Mark Warner, aimed to downplay the significance of the "no" votes.

"That was still an overwhelming vote, 16 to 7," and it was unfair to put all the blame for the financial crisis on the Fed, the Virginia Democrat said in an interview.

"It's curious that some folks who were here through the whole evolution of the crisis refuse to recognize that there's pretty much no clean hands in this," Warner said. "There's enough blame to go around."

Though most analysts expect Bernanke to win confirmation, he also faces opposition from Sen. John McCain, R-Ariz., and Sen. Bernie Sanders, I-Vt., who has placed a hold on the nomination, requiring Senate leaders to line up 60 votes supporting Bernanke before moving forward.

Speaking to reporters, Shelby said he expected a "hearty debate" when Bernanke's nomination gets to the Senate floor.

Banking Committee Chairman Chris Dodd told reporters that lawmakers ultimately have no choice but to approve Bernanke's nomination.

"It's not just any nomination," the Connecticut Democrat said. "This is a major financial event. This is not like any other regulator."

Dodd took the opportunity to stump for his regulatory reform bill, which would take the Fed out of banking supervision. The House passed a different bill last week that would make the Fed a systemic-risk regulator, working with a council of other agencies, while removing just its consumer protection functions.

"My support [of Bernanke's nomination] comes with my insistence that we carefully examine the role of an institution that runs the risk of becoming too complicated to succeed," Dodd said. "I fear that the more responsibilities we pile on the Fed's plate, the more hamstrung the Fed will be in taking the very kinds of actions that helped to save our economy from catastrophe."

Other lawmakers, including Warner, also expressed skepticism that the Fed could continue regulating bank holding companies.

"It's very clear that changes are coming to the Fed," said Brian Gardner, an analyst at KBW Inc.'s Keefe, Bruyette and Woods Inc. "While the Fed has been pushing for more power as a systemic-risk regulator, it may actually be in the Fed's best interest for the bill not to get passed."

Beyond the Fed's direct response to the financial crisis, Bernanke also took heat for his support of the Troubled Asset Relief Program, which has become deeply unpopular.

Lawmakers said they felt misled when Bernanke and then-Treasury Secretary Paulson begged for the money last year to buy troubled assets from banks, only to turn around and decided to inject capital into the institutions.

"Before the end of last year, the plan had changed twice, and I cannot in good conscience condone that kind of behavior with so much trust that Congress put into the group that put forward the Tarp," said Sen. Kay Bailey Hutchison, a Texas Republican who voted against Bernanke.

Sen. David Vitter, who also opposed Bernanke, pressed Dodd to scrap Thursday's vote entirely as Congress debates reform legislation.

"It's really putting the cart before the horse if we're confirming the chairman of the Federal Reserve before we decide the role of the Federal Reserve," the Louisiana Republican said.

Financial markets did not appear to react to the committee vote on Thursday, though lawmakers clearly worried what would happen if Bernanke were rejected.

"In anticipation of what might happen if we defeat his nomination, I've told him I would support his nomination," said Sen. Robert Bennett, R-Utah.



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